

Georgia Government Finance Officers Association
Investment Policy

Contents	PAGE
I. Scope	1
II. Objective	1-2
1. Safety	
A. Credit Risk	
B. Interest Rate Risk	
2. Liquidity	
3. Yield	
III. Standard of Care	2-3
1. Prudence	
2. Ethics and Conflicts of Interest	
3. Delegation of Authority	
IV. Safekeeping and Custody	3-5
1. Authorized Financial Dealer and Institution	
2. Internal Controls	
3. Delivery vs. Payment (DVP)	
V. Suitable an Authorized Investments	5-6
1. Acceptable Investment	
2. Collateralization	
VI. Investment Parameters	6
1. Diversification	
2. Maximum Maturities	
VII. Reporting	6-7
1. Methods	
2. Performance Standards	
3. Marking to Market	
VIII. Policy	7
1. Exemption	
2. Amendments	

I. Scope

The purpose of this investment policy is to provide general guidelines under which the investment program of the Georgia Government Finance Officers Association herein referred to as the Organization, is to be operated.

II. Objective

The primary objectives, in priority order, of investment activities shall be:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

A. Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which an entity will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

B. Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates.

Interest rate risk may be mitigated by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
- By investing operating funds primarily in shorter-term securities.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investments risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A declining credit security could be sold early to minimize loss of principal;
- A security swap would improve the quality, yield, or target duration in the portfolio; or
- Liquidity needs of the portfolio require that the security be sold.

III. Standard of Care

1. Prudence

The standard of prudence to be used by the Treasurer shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The Treasurer acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The "prudent person" standard is herewith understood to mean the following:

“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

2. Ethics and Conflicts of Interest

The Treasurer and agents involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. The Treasurer and agents shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. The Treasurer and agents shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Organization.

3. Delegation of Authority

The Board of Directors of the Georgia Government Finance Officers Association shall establish the overall investment policies, the management and implementation of which is delegated to the Treasurer, who shall establish procedures for the operation of the investment program.

Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Board of Directors.

IV. Safekeeping and Custody

1. Authorized Financial Dealer and Institution

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness (minimum capital requirement \$10,000,000 and at least five years of operation). These may include “primary” dealers or regional dealers that qualify under

Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule.)

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- Audited financial statements;
- Proof of National Association of Securities Dealers (NASD) certification;
- Proof of state registration;
- Completed broker/dealer questionnaire; and
- Certification of having read the GGFOA investment policy.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer.

2. Internal Controls

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that:

- The cost of a control should not exceed the benefits likely to be derived; and
- The valuation of costs and benefits requires estimates and judgments by management;
- Control of collusion. Collusion is a situation where two or more employees are working in conjunction to defraud their employer;
- Separation of transaction authority from accounting and record keeping. By separating the person who authorized or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- Custodial safekeeping. Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
- Avoidance of physical delivery securities. Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physical delivered securities.

- Clear delegation of authority to subordinate staff members. Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
 - Written confirmation or telephone transactions for investments and wire transfers. Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.
 - Development of a wire transfer agreement with the lead bank or third party custodian. This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.
3. Delivery vs. Payment
- All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

V. Suitable and Authorized Investments

1. Acceptable investment, set forth in Georgia code Section 356-83-4
 - U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations
 - Repurchase agreements backed by (a) above.
 - Certificates of deposit
 - Prime bankers acceptances
 - Investment-grade obligations of state, provincial and local governments and public authorities
 - Mutual funds regulated by the Securities and Exchange Commission.

2. Collateralization

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. In all cases in which collateral is required:

- It shall be provided in the form of deposits in the Organization's name.
- It shall be provided by securities having a market value equal to 110% of the Organization's investment at the time of the Organization's investment purchase. If at any time the market value of pledged securities falls below 10% of the Organization's investment for which the securities are pledged, additional collateral shall be provided by securities having a market value which, when added to the Market value of existing collateral, equals 110% of the Organization's investment.
- It shall be deposited in the Organization's name in a depository approved by the Treasurer.
- It shall be provided in a manner which fully complies with the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), in order to ensure that the Organization's security interests are enforceable against the receiver of a failed financial institution.

VI. Investment Parameters

1. Diversification

The investments will be diversified by security type and institution. No more than 20% of the investment portfolio may be invested in any single type of investment, other than mutual funds.

2. Maximum Maturities

To the extent possible, the organization will attempt to match its investments with anticipated cash flow requirements.

VII. Reporting

1. Methods

The Treasurer, or designee, shall prepare an investment report quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the Board of Directors to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity.
- Average weighted yield to maturity of portfolio on entity investments as represents.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis.

3. Marking to Market

A statement of the market value of the portfolio shall be issued at least bi-monthly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility.

VIII. Policy

1. Exemption

Any investment held on the effective date that does not meet the guidelines of the policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

3. Amendment

This policy shall be reviewed on an annual basis. Any changes must be approved by the Board of Directors.